Harmonic hearing case analysis essay

mon bENTLEY UNIVERSITY| Harmonic Hearing Co. | Case Analysis| | Yijing Zhou| 2013/3/26| | Issue Burns and Irvine need $28. 3 million to purchase Harmonic from its founder and complete and launch the new hearing aid. They have to determine the costs and benefits of different financing alternatives and, finally, select the optimal financing package in terms of expense, expected return to investment and financial flexibility. Analytical approach Unlevered free cash flows to the firm ROI analysis NPV analysis Findings 1.

The strengths and draws of debt financing Burns and Irvine can maintain 100% ownership of this company using debt financing. Their obligations are payment of principal and interests and they can run business without considering others' suggestions, that is, they own much more freedom of operations. Secondly, debt financing can receive the advantage of tax deduction. But the drawbacks of debt financing are obvious. The owner should pay the principal and interests periodically and if the business went down, the company will be faced with problem of finance.

At the same time, even if the interests are deductible when calculating the taxes, the rate is still high, and as a result, come out a large amount of costs. In this case, the owner should pay tremendous amount of lease, rent, interests and principal, making the ROI is much lower than that of equity financing. In order to financing the remaining funds except for loans, the company used the excess cash. This behavior is risky when the sales decrease and costs increase, making the company involve into liquidity crisis.

More badly, the credit rating and company image will decrease in some more troublesome condition. 2. The strengths and draws of equity financing Equity financing seems more cost-effective than debt financing in this case with a high ROI and positive NPV. And if the company’s business went down, the investors do not need to pay the money back. But using equity financing may make Burns and Irvine lose some control on the way of operations. 3. The analysis of sales, expenses, cash flow projections is on the Exhibit 1(Debt) and Exhibit 2(Equity) 4.

The benefits analysis of two financing methods is on Exhibit 4 5. The cash flow analysis of Frank Thomas is on Exhibit 3 6. The distribution of terminal value on the equity scenario is on Exhibit 5 Conclusions Considering the pros and cons of each financing method, it is beneficial to combine these two. All-debt financing brings out too much higher expense and all-equity financing may make Burns and Irvine lose control of this company. It needs deeper analysis to decide the optimal weight of debt and equity financing.